

## Message Text

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ACTION MMO-02

INFO OCT-01 AF-08 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 L-03 H-01 DODE-00 PA-01 PRS-01 /085 W  
-----140747Z 030742 /20

R 140630Z FEB 77  
FM AMEMBASSY KINSHASA  
TO SECSTATE WASHDC 1772

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 1298

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E.O. 11652: GDS  
TAGS: EFIN, ECRP, EALR, CG  
SUBJECT: CERP 0201: MORE ON 1976 BUDGET PERFORMANCE

REF: KINSHASA 0907

1. SUMMARY: ANALYSIS OF DETAILED GOZ SPENDING DATA AND DISCUSSIONS WITH IMF REP RUSSO INDICATE THAT PARADOXICAL "SPENDING SPLURGE" REPORTED REFTEL WAS PARTLY DUE TO EXTRAORDINARY DEVALUATION-RELATED OUTLAYS. THUS, THE DEFICIT ON ORDINARY OPERATIONS WAS ABOUT 262 MILLION ZAIRES RATHER THAN THE 349 MILLION ZAIRES REPORTED REFTEL. NEVERTHELESS, RUSSO HAS DISCOVERED "OTHER THINGS" THAT WILL PUSH THE DEFICIT OVER 300 MILLION ZAIRES. THE PRESIDENCY AND SALARIES CONSTITUTED THE AREAS OF MOST SERIOUS OVEREXPENDITURE. REVENUE SHORTFALL ACCOUNTED FOR ABOUT 113 MILLION ZAIRES OF THE DEFICIT BUT DETAILED FIGURES ON REVENUE PERFORMANCE ARE NOT YET AVAILABLE. 1977 BUDGETARY PROSPECTS APPEAR TO BE BLEAK. END SUMMARY.

2. WE HAVE NOW OBTAINED MORE DETAILED DATA ON GOZ SPENDING IN 1976 AND HAVE BRIEFLY COMPARED NOTES WITH IMF REP RUSSO. CONTRARY TO OUR PREVIOUS UNDERSTANDING, AGGREGATE SPENDING AND  
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REVENUE FIGURES REPORTED REFTEL DID REPEAT DID INCLUDE NEUTRALIZED IMF TRANSACTIONS OF ABOUT 118 MILLION ZAIRES. WHEN THESE TRANSACTIONS ARE SUBTRACTED FROM THE SPENDING AND REVENUE TOTALS, EXPENDITURES WERE ABOUT 851 MILLION ZAIRES AND REVENUES 501 MILLION ZAIRES, STILL LEAVING A GROSS DEFICIT OF 349 MILLION ZAIRES.

3. ANOTHER 88 MILLION ZAIRES OF 1976 BUDGET OUTLAYS WERE RELATED TO A GOZ COMMITMENT TO PROCESS ALL EXTERNAL PAYMENTS OVERDUE AS OF MARCH 12, 1976 (THE DATE OF DEVALUATION) AT THE OLD EXCHANGE RATE, PROVIDED THAT LOCAL CURRENCY HAD ACTUALLY BEEN DEPOSITED PRIOR TO THAT DATE. RUSSO INDICATED THAT HE REGARDS THIS AS A BOOK KEEPING TRANSACTION WHICH WILL NOT BE CONSIDERED PART OF THE GOZ DEFICIT. IF THIS 88 MILLION ZAIRES IS SUBTRACTED, EXPENDITURES FALL TO ABOUT 763 MILLION ZAIRES, LEAVING A DEFICIT OF ABOUT 262 MILLION ZAIRES. RUSSO, HOWEVER, HAS INFORMED US THAT HIS TEAM HAS DISCOVERED "SOME OTHER THINGS" THAT WILL BOOST THE TOTAL DEFICIT BACK OVER 300 MILLION ZAIRES. AS EXPECTED, THE DEFICIT WAS FINANCED PRIMARILY BY INFLATIONARY BORROWING FROM THE CENTRAL BANK.

4. OVERSPENDING, ESPECIALLY ON THE RECURRENT BUDGET, WAS THE MOST IMPORTANT CAUSE OF THE BUDGET DEFICIT AS SHOWN BY THE FOLLOWING FIGURES IN MILLIONS OF ZAIRES:

BUDGETED SPENT OVERSPENDING

SALARIES (INCLUDES PENSIONS,			
SCHOLARSHIPS)	144	224	80
PRESIDENCY (RECURRENT)	15	73	58
DEFENSE (RECURRENT)	62	74	12
PUBLIC WORKS (RECURRENT)	17	22	5
AGRICULTURE (RECURRENT)	8	12	4
POLITICAL AFFAIRS (RECURRENT)	4	8	4

5. OTHER BUDGETARY ITEMS, PARTICULARLY THE CAPITAL BUDGET, WERE UNDERSPENT AS OUTLINED BELOW IN MILLIONS OF ZAIRES:

BUDGETED SPENT UNDERSPENDING

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DIRECT DEBT	65	9	54
ENERGY (CAPITAL)	56	41	15
AGRICULTURE (CAPITAL)	19	11	8
TRANSPORT (CAPITAL)	19	12	7
FINANCE (CAPITAL)	10	6	4
DEFENSE (CAPITAL)	7	4	3

6. ORDINARY REVENUE (EXCLUDING THE 118 MILLION ZAIRES RETURNED FROM THE IMF TO THE GOZ TREASURY IN THE FORM OF A TREASURY BOND PURCHASE) TOTALED ABOUT 501 MILLION ZAIRES. THIS REPRESENTS A SHORTFALL OF ABOUT 113 MILLION ZAIRES FROM REVENUE LEVELS FORECAST BY THE GOZ AND THE IMF. (OUR ERRONEOUS STATEMENT REFTEL THAT REVENUE SHORTFALL PLAYED NO ROLE IN THE DEFICIT WAS BASED ON DATA WHICH DID NOT IDENTIFY THIS 118 IN MILLION ZAIRES AS BEING EXTRAORDINARY IMF RELATED REVENUE. WE HAVE NOT YET OBTAINED A DETAILED BREAKDOWN OF RECEIPTS FROM CUSTOMS, COMPANY TAXES AND OTHER REVENUE SOURCES WHICH WOULD PERMIT MORE DETAILED ANALYSIS OF THE REVENUE SHORTFALL.

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STR-04 CEA-01 L-03 H-01 DODE-00 PA-01 PRS-01 /085 W  
-----140746Z 030781 /20

R 140630Z FEB 77  
FM AMEMBASSY KINSHASA  
TO SECSTATE WASHDC 1773

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 1298

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7. GOZ BUDGET PROSPECTS APPEAR TO BE BLEAK. ON THE EXPENDITURES SIDE, LARGE AND POLITICALLY SENSITIVE SEGMENTS OF THE GOZ BUDGET APPEAR TO HAVE BEEN OUT OF CONTROL. AMONG GOZ DEPARTMENTS, THE PRESIDENCY HAS BEEN FAR AND AWAY THE MOST FLAGRANT OVER-SPENDER. BUDGET AUSTERITY WITHOUT THE COOPERATION AND PARTICIPATION OF THE PRESIDENCY WILL FAIL. THE GROWING GOVERNMENT WAGE BILL POSES ANOTHER PROBLEM. AS RECENTLY AS 1975 SALARY EXPENDITURES WERE BUDGETED AT 111 MILLION ZAIRES; ACTUAL SPENDING HAS BALLOONED TO 160 MILLION ZAIRES IN 1975 AND 224 MILLION ZAIRES IN 1976. PRESIDENT MOBUTU HAS CALLED FOR A FREEZE ON SALARY EXPENDITURES FOR 1977 BUT, IF IMPLEMENTED, THIS WOULD HAVE SEVERE POLITICAL COSTS. WE RECALL THAT A YEAR AGO THE 1976 BUDGET CALLED FOR A CUT IN SALARY EXPENDITURES FROM 160 MILLION ZAIRES TO 144 MILLION ZAIRES; ACTUAL SALARY EXPENDITURES REACHED 224 MILLION ZAIRES. THE SAME ECONOMIC AND POLITICAL PRESSURES THAT PREVENTED A CUT IN SALARY EXPENDITURES LAST YEAR WILL BE OPERATING AGAIN THIS YEAR, ESPECIALLY CONSIDERING HOW STEEPLY PRICES HAVE RISEN IN COMPARISON TO WAGES. FINALLY, THE LARGE DEBT SERVICE REQUIREMENTS ASSURE HEAVY CLAIMS ON GOZ RESOURCES IN 1977 AND SUCCEEDING YEARS. ON THE REVENUE SIDE, MUCH WILL DEPEND ON ADMINISTRATIVE REFORM AND DEVELOPMENTS IN THE WORLD ECONOMY. THERE ARE INDICATIONS THAT FRAUD HAS SIGNIFICANTLY CUT GOZ

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REVENUES, PARTICULARLY FROM IMPORT AND EXPORT TAXES. SOME OF THE PERPETRATORS REPORTEDLY HAVE GOOD CONNECTIONS WITH THE ELITE AND A CLEAN-UP WILL HAVE POLITICAL COSTS.

8. ONE IMPORTANT ASPECT OF THE GOZ'S OVERSPENDING IS THAT SPENDING FOR RECURRENT NEEDS HAS BEEN SQUEEZING OUT SPENDING FOR DEVELOPMENT. THE 1976 RECURRENT BUDGET WAS OVERSPENT BY 180 MILLION ZAIRES BUT THE DEVELOPMENT OR CAPITAL BUDGET WAS UNDERSPENT BY 33 MILLION ZAIRES. A SIMILAR PATTERN PREVAILED IN 1975. AS A RESULT THE GOZ IS ERODING ITS DEVELOPMENT BASE AND IS COMPROMISING ITS ABILITY TO LAUNCH AN EFFECTIVE GROWTH STRATEGY.  
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